

Financial Management Systems Improvement Council
Meeting Notes
Pikes Peak Room
Marriott Denver Tech Center
Denver, CO
April 25, 2000

Attendees: Tom Baranouskas-PNNL, Ralph Bonner-SNL, Jim Campbell-DOE-HQ, Bruce Chrisman-Fermilab, Allan Johnston-LANL, Jim Lopez-LLNL, Brian Morishita-INEEL, Dean Olson-DOE-AL, Paul Rosenkoetter-INEEL, Ron Ragland-LMES, Brian Sack, BNL
Not present: Gregg Crockett-K-H, Paul Grefenstette-WSRC, Paul Keele-DOE-ID, Jim Martin-DOE-OR

Guests: Bonnie Apodaca-SNL, Mike Bartos-ANL, Lee Elster-DOE-OK, Gary Concannon-SNL, Mark Israel- BNL,

Ralph Bonner:

Introduced Brian Sack as the new Brookhaven National Lab representative to the Council.

Jim Campbell:

Budget Results Council Update

February 17 Meeting Notes

- A meeting of the Council was conducted on February 17, 2000 in Washington.
- Headquarters CFO and Program members, Field CFO representatives, and contractor representatives attended meeting.
- A Number of issues surfaced in the meeting:
 - Concern expressed over lack of PSO attendance at the meetings
 - Charter amendment agreed upon to allow DOE field office budget directors to serve on BRC
 - Tom Palmieri to replace Betty Smedley as a member of the BRC
 - John Pescosolido, CFO at SR was elected as new BRC co-chairman
 - IWO - Helen Sherman has agreed to move forward a policy revision to raise the threshold to \$250,000. Concerns have been expressed that some contractors are requiring all interoffice work to go through the IWO process regardless of amount
 - Discussion on contractor travel - it was agreed BRC needs from its members examples of travel savings
 - Discussion of requirement in the FY 2000 Energy and Water Appropriation Act

- for the preparation and approval of laboratory funding plans at the 9 laboratories.
- Safeguards and Security Budget Amendment
- BMIS-FM - need for BRC involvement

NNSA Update

Current Status of the Organization

- NNSA formally began operation effective March 1, 2000.
- On March 2, the Secretary announced that the President intends to nominate Air Force General Gordon to serve as the new Under Secretary for Nuclear Security and NNSA Administrator.
- Until General Gordon's confirmation, the Secretary will perform all duties and functions of the Under Secretary.
- Acting Deputy Administrators are Giaconda for Defense Programs, Gottemoeller for NN, and Bowman for Naval Reactors.
- On March 9, the President announced his intent to nominate Madelyn Creeden (currently counsel for minority staff of the Senate Armed Services Committee) as Deputy for Defense Programs.
- As of March 1, about 2000 DOE employees were realigned to become employees of NNSA. This includes employees of DP, MD, NN, AL, and NV, as well as most employees of NR, PNR, SNR, and some other employees mostly at OR, OAK, and SR.
- The Department's staff offices will continue to provide business, administrative, financial, and other support services to NNSA. The day-to-day routine will remain essentially unchanged.
- In general, all statutes, regulations, delegations, and directives, including policy statements, orders, notices, manuals, guides, and technical standards applicable to DOE that were in effect before March 1 will continue to apply to Departmental functions and activities that have been transferred to NNSA. The FMC and other corporate management processes will continue in full force and effect.

CFO Functions

- While the establishment of the NNSA has and will continue to have a number of budget and financial implications, the overall responsibilities of the CFO community remain essentially unchanged. We will continue to prepare and submit the Department's budget to the President and the Congress, issue monthly accounting reports internally and externally, prepare consolidated Departmental financial statements, and prescribe and perform all financial management responsibilities.

- A separate budget for NNSA was included as part of the Department's Congressional budget submission for FY 2001 with two appropriations - Weapons Activities and Other Nuclear Security Activities. However, the budget only included the activities of Defense Programs, Nonproliferation and National Security, Fissile Materials Disposition, and Naval Reactors. Funding for the Office of the NNSA Administrator (and its staff to support legislative affairs, public affairs, intergovernmental liaison, budget, and procurement) was not specifically identified in the FY 2001 budget request.
- One of the CFO's initial activities was to review the provisions in the Chief Financial Officer's Act of 1990 in concert with the NNSA legislation to determine the extent of the CFO authority with respect to the operations of the NNSA.
- With respect to Departmental financial activities, generally the authority vested in the Departmental CFO under the Chief Financial Officer's Act of 1990 extends to the budgeting and financial activities of the NNSA.
- Under the CFO Act, the CFO is responsible for financial management within the Department and is given specific statutory authority to direct, manage, and provide policy guidance and oversight of agency financial management personnel, activities, and operations. Nothing in the NNSA legislation changes this mandate.
- The establishment of the NNSA did not supercede the Act, which establishes a CFO position in each cabinet level agency. Nor was a separate CFO established for the NNSA. The CFO was established under the CFO Act not to direct or manage programmatic activities but to prescribe agency-wide financial management policies and general procedures complementary to such activities.
- As the Departmental CFO designees, the field CFOs, whether NNSA employees or not, continue to have the responsibility to implement the financial policy and procedural guidance issued by the Departmental CFO.
- It should be noted our earlier review of the CFO Act identified a few financial management authorities that had been delegated from the Secretary to the CFO and by the CFO to the field CFOs, which were not specifically covered by the CFO Act. As such, one could argue that delegations of these functions from the CFO to the field CFOs would have no legal effect with respect to the NNSA activities, as the NNSA legislation provides that employees of NNSA may not be responsible to, or subject to the authority, direction, or control of any officer, employee, or agent of the Department, other than an employee of the NNSA, the Secretary, and the Deputy Secretary. To ensure these functions were covered upon the implementation of NNSA, delegations of authority from the Secretary to the Administrator NNSA and from the Administrator NNSA to the Field Chief Financial Officers at the NNSA sites (AL, NV, OR, OAK, and SR) were executed on February 29, 2000.

Capitalization of Internal Use Software

- FASAB Standard No. 10, ACCOUNTING FOR INTERNAL USE SOFTWARE, requires the capitalization of the costs of internal use software (including functional enhancements) whether it's commercial off-the-shelf, contractor developed, or internally developed. Software is classified as "general property, plant and equipment."
- While the Standard is applicable for the FY 2001 financial statements, we need a system for collecting the costs in place by October 1, 2000.
- With regard to commercial over the counter and contractor developed software, the costs are available. However, for internally developed software, capitalized costs should include the full cost, including direct and indirect cost incurred during the software development stage. This would include all Federal salaries plus overhead. Currently there is not system in place to capture these costs.
- We have established a DOE working group comprised of representatives from the Headquarters CFO, CIO, and MA as well as representatives from AL, CH, ID, NV, and SR. Mary Rosicky is the team leader.
- The Working is drafting a directive specific to internal use software.
- The group has raised several implementation issues.
 - ◆ No system in place to capture cost
 - Must be doable within six months
 - Whatever we do must be able to withstand audit scrutiny
 - Would this be tracked via entity's property management system?
 - ◆ How do we capture Federal direct/indirect costs on Federally developed/procured software (BMIS)
 - ◆ What should the capitalization threshold be? The Standard allows for the capitalization threshold to be different from other PP&E. Once we can identify the universe, the challenge is to set a threshold high enough to avoid capturing small user applications, eliminate administrative nightmare, but not materially understate balance sheet and will pass audit scrutiny.
 - ◆ Does the Department have a handle on how many systems we have and who will be responsible to identify them.
 - ◆ Should we capture costs related to legacy waste systems? (We now fully

depreciate/write-off PP&E related to environmental cleanup, i.e. legacy waste assets.) If EM were to construct a building at RL related to cleanup, we would capitalize in CWIP and fully depreciate. Does it make sense to expend the administrative effort to capture the cost of internal use software related to environmental cleanup and then immediately fully depreciate this.

- ◆ Standard does not prescribe useful lives for software - will need to be developed.
- ◆ The Department is also participating with a government wide working group on this initiative.

DP WBS Proposal and Treatment of Indirect Cost Update

Background

- As the DP Federal and contractor sites are aware, DP proposed a new budget structure for FY 2001, and submitted it to the Congress on February 7, 2000.
- The major change is to replace the Stockpile Stewardship and Stockpile Management Programs with Campaigns, Directed Stockpile Work and Readiness in Technical Base and Facilities. Other activities, namely Transportation Safeguards, Construction and Program Direction remain essentially unchanged
- The Headquarters and field CFO community had concerns with a portion of the new structure, specifically the operations of facilities component of RTBF, because of differences in approach within DP-10 and DP-20.
- Several conference calls were held on the Federal side with DP, but the message was not getting across. Consequently, it was decided to host a joint DP (including representation from DP-10, 20, and 40), field CFO, contractor budget/financial staff and CFO Headquarters to address the proposal differences, CFO concerns, and cooperatively develop a solution that provided DP management the financial information they need, but did not adversely impact contractor accounting systems.
- Our largest issue was the inconsistent treatment of indirect costs in the DP-10 and 20 organizations. DP-20's approach stripped indirect costs from final cost objectives (DSW, Campaigns and RTBF) and funded and/or accounted for them using standalone DP B&Rs within the RTBF line. Whereas, the DP-10 approach was consistent with traditional allocation of indirect costs. Other concerns involved an understanding that DP-20 wanted to see a functional cost breakout of facility operations costs by each major facility and similar information for the balance of facilities at their sites.
- The definition of facilities operations was also a concern.
- Meeting was successful. The group agreed that:

- Indirect costs will be allocated to campaigns, directed stockpile work, and RTBF by all DP-10 and DP-20 facilities. Costs of operating and maintaining specifically identified facilities that are critical to the DP mission will be accounted for as part of the facilities operations line under RTBF. All other facilities operating costs will be allocated (as has been done traditionally) to final cost objectives.
- All participants (not everyone was represented) were comfortable with this agreement and that implementation would not result in CAS problems.
- Actions Taken
 - Developed, circulated, and finalized a definition of operation of facilities that was understandable to both the budget and finance community and was sufficiently defined to ensure some degree of consistency in approach across the complex.
 - Developed, circulated, and finalized a list of facilities to the group after consulting with DP-10 and 20.
 - DP determined it does not want unique B&Rs in the DOE accounting system for each facility. They may want quarterly reporting, however.
 - Conference calls held with sites that were not present at the January meeting. They are now on board and generally agreeable to the proposed solution.
 - On March 31, DP issued correspondence to the field CFOs requesting adjustments to the FY 01 budget to incorporate the results of the revised definition and listing of facilities included in, Operations of Facilities in the Readiness in Technical Base & Facilities line of the budget. I understand all responses are in, adjustments have been made, and coordination is ongoing with the Office of Budget. The result was a decrease in the RTBF line.

Overhead Review

Background

- FY 2000 House Energy and Water Development Committee Report direct the Department to “review the costs included in the overhead charges of the management and operating contractors and report to the Committee on the reasonableness of these charges. In addition, the Department should determine which charges should more appropriately be funded as direct program costs. The report raises concerns with inconsistent treatment of security investigation costs, the costs of M&O contractor offices in Washington, and centers of excellence.
- Discussions with Committee staff regarding this Congressional requirement indicated a strong concern that Department employees (program/project managers) do not know what it is paying for in contractor overhead and if these expenditures are in the best interest of the

taxpayer. Further, the Congress was concerned that the Department was funding activities out of overhead that they were unaware of. Areas specifically mentioned were contractors spending time in Washington lobbying, marketing to OFA's, and seeking additional funding from the Department; security investigations being funded direct but charged as an indirect by certain contractors; a university consortium funded in overhead that may more properly be funded as a direct cost under an education program; inequitable overhead distributions at one of our Federal sites; and centers of excellence - are the expenses proper, benefiting to taxpayers, and should they be funded direct or indirect. Other issues have apparently been raised as a result of the external independent project reviews mandated by the Congress.

- At the same time, the Secretary identified the need for overhead reviews as one of his management efficiency initiatives.
- To comply with the Congressional direction and as one of his management initiatives, the Secretary announced on March 15, 2000 that the Chief Financial Officer would establish a formal program to review the overhead costs incurred by our site operating contractors. In year one, the Secretary determined this initiative would encompass the nine multi-program national laboratories and the larger site operating contractors, and would be expanded to the remaining contractors over the next 2 years.

Coordination Process

- To comply with the Secretary's direction, the CFO developed guidance and on March 24, 2000 issued through the Field Management Council for Department-wide review and comment. At about the same time, a conference call was held with the field CFOs to discuss the guidance.
- The field in this conference call and in the coordination raised a number of concerns with the Lead Program Secretarial Officers. Additionally, the guidance was discussed with the field CFOs as part of a one-day meeting in Washington on April 13.
- The guidance has been appropriately revised, and is now ready for issuance.

Requirements

- The objective of the review is to ensure that Headquarters and field offices understand the nature of costs included in the contractors' overhead and the development and application of overhead rates.
- The review should not duplicate work already performed by the field offices to review overhead. In fact, field offices are encouraged to use existing reliable information from recent reviews or validations performed.
- Field CFOs will provide a written report to field office managers stating that in the CFO's opinion the overhead categories of costs as provided by the contractor are reasonable and

appropriate. In addition, the field CFOs are to assert that the methodologies used by the contractor to allocate these costs, as described in the contractor's CAS Disclosure Statement are appropriate and in accordance with CAS.

- The CFO should identify any costs that appear to be excessive or inconsistent with the contractors' mandate to manage DOE facilities. This may include activities that the field office manager believes could be construed by Departmental or Congressional officials as being an inappropriate use of Departmental funds, inappropriate funding of a direct program through overhead, etc.
- Each activity identified should be accompanied by an explanation of the purpose of the activity and the benefits to be derived from this expenditure of Federal funds. The report should also describe the Field office's systems and processes for oversight of contractor costs.

Scope

- For this fiscal year, the scope of the review will cover general and administrative expenses, common site support, and other overhead as defined by FMSIC. Organizational burden and service center costs will be provided as aggregate figures, but analysis will be deferred until next year's review (with additional guidance to be provided).
- Within this overall structure, contractors should disclose each overhead pool as defined in that contractor's CAS Disclosure Statement.
- Within each pool, contractors should provide to the field CFO the specific activities contained in each overhead pool. The activities should be consistent with the contractor's WBS/chart of accounts and be reported at the lowest level at which the contractor budgets. If this level is not sufficient to facilitate an understanding of the nature of the activities funded, contractors should expand the level displayed and the discussion to provide the necessary insight.

Field Office Reporting to Headquarters

- A copy of the report prepared by the field CFO for the manager.
- For each overhead pool, a description of the cost allocation base and an explanation of how the resultant rates are calculated and applied, accompanied by a certification by the field CFO that such rates are appropriate and reasonable.
- Input, based on FY 1999 actuals, on each contractor's practices for allocation of overhead to work authorized by one DOE contractor for performance by another DOE contractor.

Time Period for the Review

- Field Offices will have about two months (June 30) to complete the reviews and report to Headquarters.

Headquarters Role

- Build the Headquarters expertise, knowledge and understanding of overhead and activities at each site.
- CFO must issue a report to the Congress on the reviews - we need a sufficient knowledge base of what is in overhead to defend it and answer questions.
- Programs have expressed a desire and have been invited to participate in reviews.

Secretary's Management Initiatives

Background

- In March the Secretary announced several management initiatives designed to produce short and long-term savings and improve the efficiency of Departmental operations.
- The reforms include items under essentially three categories - Improving Administrative Management, Streamlining Operations, and Improving Management of Contractors.

Downsizing of M&O Employees in Washington

- DOE has reduced the number of M&O employees assigned to the Washington area from 673 in November 1997 to 378 in October 1999. Assignments will be further decreased to 264 by May 2000.
- The Department is in process of reducing the number of leased office sites used by M&Os in DC from 14 to 1. Offices will be closed by end of year.

Contractor Fee Control/Contract Management

- Objective is to improve the management of M&O contracts with a focus on the areas of contract administration, system disciplines, and performance based contracting.
- Eight items were identified in the action plan. The first, "Overhauling and Upgrading the M&O Contract Regulatory System" is the subject of a major rulemaking that was published in the Federal Register last month. The second item, "Issue a DOE-wide Contract Administration Guide" is on schedule for issuance on 5/31. The eighth item in the Action Plan, review of contractor fees, involves the review of the fee structure at three major facility contractors a year.

Improving Project Management - Establishing Better Baselines

- The Department has experienced significant difficulties in managing its major projects, because cost schedule control systems have been inadequate or non-existent and construction had commenced despite changes in mission need or in design plans.
- The Department has retooled its project management function to ensure its construction projects stay within cost parameters, adhere to scheduled milestones, and are technically adequate. A new engineering and construction project management function has been established in the CFO. This office will also oversee the independent reviews of all major construction projects.
- The Department has proposed in the FY 01 budget a planning, engineering and design fund to:
 - Allow for more accurate baselines, resulting in reduced cost overruns, slips in schedules and technical failures.
 - Provide a project management control point as outlined in the Deputy Secretary's Acquisition Policy of 1/3/00.
 - Increase project manager accountability by requiring them to justify credibility of design work prior to proceeding with construction
 - Make External independent reviews more effective by basing them on more definitive design work.

Redundant HR Systems

- Program/field offices have redundant HR systems that could be eliminated once the Corporate Human Resources Information System functions are fully developed.
- Survey to be issued, which is designed to determine which HR systems are redundant. A workgroup has been formed to evaluate current work processes and automation activities that could be enhanced.

Training

- Historically, the Department's Federal and Contractor training offices have developed training specific to their needs, often independent of all other offices. The Cross cutting training forum (CCTF) was developed by a corporate team led by AL, to provide opportunities and a process for Federal and contractor employees to rapidly exchange training inquiries through a common electronic system. The CCTF was launched in 9/99, but has not been used to any great extent by offices. The initiative is to increase the usage of this capability, with potential significant savings.

Printing Services Pilot

- Partnering with GPO and the SR Site, DOE implemented a pilot printing procurement process, which allows for direct acquisition of printing products costing less than \$2,500

from local commercial vendors. This was initiated to resolve concerns with both the quality of products and delivery delays when dealing directly with the GPO.

- Several sites have also expressed interest in implementing this activity. The recommendation is to expand pilot to other DOE sites.

Fully Implement Electronic Commerce

- DOE has developed a WEB-based Electronic Commerce Technology to replace the current paper based process for acquisition of small purchases. OR and CH have aggressively implemented the process, implementation at HQ has not proceeded quickly.
- CFO/MA issued joint memo mandating the use of the small purchase system by all DOE offices by 10/01/00.

Working Capital Fund

- In 1/96 DOE established a Working capital fund (WCF) as a financial tool for charging the cost of common services provided by Headquarters to program offices. The WCF has improved management of administrative services and reduced costs.
- Initiative is to find ways to improve current businesses and to research and expand pool of suppliers to become more competitive.
- Also, examining expansion of the WCF to streamline financial processes for assessed Department-wide charges. Over a dozen candidate business lines have been proposed.

Pooling DOE Purchasing Power - Travel

- Initiative designed to explore the feasibility of pooling DOE travel and lodging power through the contractors jointly negotiating with airlines or hotels. The Integrated Contractor Purchasing Team, a subgroup of the Contractor Purchasing Council, will be asked to explore the feasibility and potential cost savings that may result from this activity.

Pension and Health Benefits

- The Contractor Human Resource Management Council is addressing pension and health benefit issues. Emphasis initially will be on closure sites.

Assessing Grants and Earmarks

- The Department annually has made hundreds of grants to a variety of private, intergovernmental, and public organizations on an unsolicited basis or through Congressional earmarks.

- It was decided the Department needs to review these to ensure the funds are directed toward mission critical functions, and are not duplicative of other Federally funded programs.
- The Secretary has directed all DOE programs and their field components to provide input to a data base that will track grants and earmarks to facilitate continual review of these expenditures with the expectation that unnecessary, duplicative, or non-mission critical funds could then be redirected to higher priority programs.

Capturing Frequent Flyer Miles

- Federal employees are prohibited from using frequent flyer miles obtained through Federal travel for personal use. Administrative burden to apply for individual account with no financial incentive is not resulting in benefit to the Government.
- Initiative is to implement a frequent flyer program for Federal employees. This was signed out by the CFO on 3/27. Under the program, employees will receive ½ of the savings in cash resulting from use of frequent flyer miles. Also looking to expand this to cover discounts for hotels and rental cars.
- Efforts now turn to exploring the feasibility (as recommended by the IG) of expanding the program to the DOE contractor community.

Cleaning Out the Attic - Improving Asset Management

- Establish a responsible Headquarters organizational entity, as recommended by the IG, with focus on asset management and disposition as a high priority of senior management. Pursue a legislative reform from the Congress that will enable DOE to retain proceeds from the sale/disposal of excess property, rather than having real property proceeds revert to the Treasury.
- CFO is engaging with the Congress to seek enactment of legislation to establish a special “Asset Reduction and Reinvestment Incentive Fund.” The CFO also continues to pursue creation of incentives to encourage investments in cost reduction projects, and to reduce or eliminate disincentives to disposition.

Nuclear Materials Management

- The Department is currently managing nuclear materials through 4 major program offices at 36 different locations. In response to provisions contained in the National Defense Authorization Act for FY 2000, the Department has initiated an effort to integrate the management of this material to reduce vulnerabilities and to develop solutions for ultimate disposition of material for which the nation has no current or future use.
- The initiative will be addressed in a report to Congress.

Others

- Other areas to be addressed include review of real property needs, site management efficiencies, disposing of radioactive and hazardous waste, implementing corporate policies, and economic development.

Initiatives for Proliferation Prevention Update

Background

- As we discussed at the last Council meeting, Congress imposed stringent requirements on the Initiatives for Proliferation (IPP) Program primarily in response to issues raised in last year's GAO audit. In light of these restrictions, the program is particularly concerned with lab expenditures of limited program dollars.
- Section 3136 of the Defense Authorization Act for FY 2000 contained a number of restrictions related to the use of appropriated funds for, and the conduct of, the IPP Program.
 - a limitation (of not more than 35 percent) on the amount of IPP Program funds available in any fiscal year beyond FY 1999 the DOE national laboratories may use to carry out or provide oversight of activities under the IPP Program. Is implementation of this restriction creating issues???
 - a prohibition on the use of IPP Program funds for the payment of any tax or customs duty levied by the government of the Russian Federation.
 - a requirement that the Secretary of Energy notify Congressional defense committees in the event payment of a tax or duty is unavoidable and ensure that sufficient additional funds are provided to the IPP Program to offset the amount of any taxes or duties paid.
- To ensure compliance with the prohibition on use of IPP Program funds for Russian taxes, DOE awarded a payment services contract to the U.S. Civilian Research and Development Foundation, a non-profit entity that is exempt from taxes under Russian Federation law. CRDF will make all payments to Russian Institutes under existing and prospective subcontracts. New subcontracts with Russian Institutes will be approved on a case-by-case basis. CRDF will not be sued for payments to the Ukraine or to Kazakhstan - it is expected payments to these jurisdictions will ultimately be tax-free. No subcontracts are or will be in place with Belarus.
- Cognizant DOE Contracting Officers were to direct the M&O's to make no new payments after September 30, 1999. Also, cognizant DOE Contracting Officers were directed to have the M&O's modify their existing subcontracts with Russian Institutes to incorporate specified contract language. M&O's were also directed to continue to

perform accounting and reporting for their respective contracts, but to transmit an advance for the total unpaid balance representing the subcontract value of the outstanding deliverables on existing subcontracts to the Capital Accounting Center. Upon receipt and acceptance of deliverables under the subcontracts, the M&O's were to notify the DOE program manager, who in turn would notify the DOE Contracting Officer for the CRDF contract in order to authorize payment by CRDF. This process was addressed in correspondence from the Deputy Secretary dated December 22, 1999.

- We are aware of one instance in which a participating laboratory executed payments in FY 2000 directly to the Russian Federation, which were subject to Russian taxes. Are there other instances of this that you are aware of? Please check with your responsible officials to so verify. This issue is very important. We must notify the Hill in each of these instances and take action to make the IPP program whole to the extent of these payments. This may constitute a reprogramming action. It would not be unlikely for the GAO to initiate another review of the IPP program - we would not want them to disclose this for us.

Audited Financial Statements

Results of IG Audit of FY 1999 Financial Statements

- The Department received an unqualified opinion on the IG's audit of our FY 1999 financial statements.
- The Office of CFO sincerely appreciates Federal and contractor efforts leading to this clean opinion and specifically acknowledges your partnership with the EM community to resolve the material internal control weakness regarding the support for our environmental remediation liability estimate. You are cautioned that this continues to be an area of major concern to both the IG and to GAO.
- Further, we appreciate your end of year efforts to support a prior period adjustment of the environmental liability of approximately \$28 billion to correct the effect of the FY 1998 material weakness. This effort was requested with little lead-time and was done in a professional manner, which ultimately withstood the IG's review.
- The IG's FY 1999 audit identified one material weakness and three reportable conditions. The material weakness involved the implementation of a new accounting system at one of our Federal sites and a determination the system did not comply with Federal financial management system requirements and, therefore, amounted to a noncompliance with the Federal Financial Management Improvement Act. The CFO received two recommendations resulting from this finding: 1) monitor the implementation of corrective actions at that site, and 2) approve the implementation of new financial management systems that could materially impact the Department's financial statements before disengaging the systems being replaced. While the recommendation does not specifically address contractor accounting systems, CFOs should be actively involved in these system development efforts to reduce the potential for serious problems.
- The three reportable conditions involve: 1) Errors in the input data (facility model type, inclusion of facilities that were not contaminated, exclusion of facilities that were contaminated, errors in the square footage of facilities) impacting the environmental liability for active facilities (the error rate in the IG's sample was about 16 percent - fortunately the errors netted to something much smaller - amount of liability DOE wide is \$25 B). Please coordinate with your property management personnel to ensure the data entered by the contractors and approved by DOE management is accurate, 2) unclassified computer security, and 3) performance measurement reporting.
- From a government wide standpoint, DOE was one of only 13 of the 24 largest Federal agencies that received an unqualified audit opinion. In fact, Comptroller General Walker congratulated the Department for improving weaknesses in its financial statements.
- The Department received a B- in Congressman Horn's scorecard of agency performance. This scorecard takes into consideration the audit opinion, compliance with internal control standards, and compliance with law. Only two agencies received

a better grade than Energy - NASA and NSF.

Plans For FY 2000 Audit

- The IG recently announced that KPMG will assume complete responsibility for the FY 2000 financial statement audit.
- KPMG is planning an entrance conference in Headquarters to kick off the FY 2000 audit on May 22.
- In our meeting with the IG, they confirmed that any findings would be informally discussed between KPMG and the auditee before a draft finding and recommendation would be written and submitted to management. Once the draft finding and recommendation is written it would be reviewed by the IG prior to submission to the auditee.
- The IG will participate in and arrange all entrance and exit conferences.
- The audit opinion will be KPMG's, but subject to IG review.
- KPMG, based on prior audit work, concludes inherent risk for the Department's overall financial activity is low. However, they also conclude that the inherent risk of the environmental liability is high. They will be focusing on the material weakness and the three reportable conditions identified in the FY 1999 audit. With regard to the active facilities, they will visit the sites where problems were identified last year as well as other selected sites.

Safeguards and Security

Background

- To strengthen DOE-wide security, the Department is submitting a FY 2001 amendment, which consolidates DOE-wide safeguards and security expenditures within the Office of Security and Emergency Operations and allows centralized management, direction, tracking, and monitoring of security costs DOE-wide.
- The Office of Security and Emergency Operations requests Congress' support during this year of transition to a direct funded SO budget. Although every effort has been made to ensure that S&S costs that have been funded from overhead in the past are accounted for and appropriately burdened, there may be minor adjustments and/or transfers to realign funds .
- Field/contractor analysis conducted to convert S&S to a direct program with offsets to all other site activities. Identified a \$40 million recovery needed from work for others to make funding whole.

- Formal discussions have been held with OMB and Authorization and Appropriations Committees to discuss strategy and structure of the budget. As a result, the following structure was developed:
 - Energy and Water Development
 - Weapons Activities - S&S
 - Defense EM - S&S
 - EM Closure - S&S
 - Science - S&S
 - Interior and Related Agencies
 - Strategic Petroleum Reserve
 - Fossil Energy R&D
 - Conservation and Energy Efficiency
- The above appropriation lines will be executed by SO, including preparation of AFP's etc.

Current Status

- Budget Amendment under Office of CFO review - to be issued by April 28.
- The Department intends to budget for safeguards and security net of anticipated recoveries from work for others.

Next Steps

- Issue Budget Amendment

Develop guidance on recovery of safeguards and security costs from work for others

Ralph Bonner:

FMSIC Charter

Thanks were given to Dean Olson for his efforts in rewriting the charter.

Action: All members were asked to send final charter comments to Brian Morishita. Jim Campbell will take the charter to Mike Telson for his signature.

Dean Olson:

Payments Survey

Overall electronic payment usage is fairly widespread amongst the contractors with only pockets of potential increased use of electronic payments, particularly for accounts payable.

Action: Ralph Bonner. FMSIC will (1) acknowledge a high amount of payroll participation and (2) encourage contractors to further implement automated payments.

Gary Concannon:

BMIS Update

Concern was expressed that not all of the contractors are receiving BMIS info. Implementation of the core financials is scheduled for June 2002. The BMIS contract will seek a third party integrator who will recommend software and hardware solutions. Account structure, the requirements document, and cost of implementation are issues that should be addressed at an "awareness meeting." **Action: To determine FMSIC's involvement Paul Rosenkoetter, Gary Concannon, Jim Lopez and Mike Fraser will determine will develop a plan to engage the contractors in a greater role with BMIS. Dean Olson will email the requirements document to Brian Morishita who will forward it to the FMSIC members.**

Jim Lopez:

IWO

FMSIC needs to look at both the IWO and ICO process.

Action: Jim Lopez, Dean Olson, Jennifer Hackett, Terry Olsen and Pam Spicer will participate on a working group that will continue to work this issue.

Ralph Bonner:

LDRD

It was mentioned that the policy of how LDRD was being applied as costs to both the authorizing and performing sites needs to be examined.

Action: Jim Campbell will look into this policy. Jim Lopez will develop a white paper recommending that the current situation be retained.

Paul Rosenkoetter

Benchmarking Costs

Paul Rosenkoetter made a presentation on indirect cost analysis that is being conducted at the INEEL and asked if either FMSIC or individual members were interested in pursuing a benchmarking study with the INEEL. Members of the Council decided against any involvement.

Ralph Bonner:

Functional Support Cost Peer Review

It was agreed that (1) DOE and not FMSIC owns functional cost and (2) FMSIC continue to support the functional cost peer review process and insure that there is appropriate communication regarding the purpose and limitations of functional cost.

Action: Ralph will contact Dennis Pulsipher of the Council's decision to continue the peer review process.

Ralph Bonner:

Safeguards and Security

It was noted that the decision to make Safeguards and Security a direct program had a problem with work for others.

Action: Bonnie Apodaca will lead a working group that includes representatives from LANL and BNL to examine the work for others problem relating to the direct funding of Safeguards and Security.

Next FMSIC Meeting

- Washington, D.C. August, 2000